IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TENNESSEE
WESTERN DIVISION

SERVICEMASTER RESIDENTIAL/ COMMERCIAL SERVICES, L.P.,

Plaintiff,

v. **No. 07-2253 Ma/V**

KHALED M. ASAAD d/b/a SERVICEMASTER ANYTIME EMERGENCY SERVICES, SERVICEMASTER CLEANING SERVICES, STEAMMASTER CLEAN, STANLEY STEEMER AND SUNSTATE CARPET CLEANING,

Defendant.

ORDER GRANTING PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

Plaintiff ServiceMaster Residential/Commercial Services, L.P. ("ServiceMaster") brings this action against Defendant Khaled M. Asaad d/b/a ServiceMaster Anytime Emergency Services, ServiceMaster Cleaning Services, Steammaster Clean, Stanley Steemer, and Sunstate Carpet Cleaning ("Asaad") alleging various violations of the Lanham Act, 15 U.S.C. § 1051 et seq. and various breaches of two franchise agreements executed between the parties. ServiceMaster bases its motion for a preliminary injunction on two claims: (1) false designation and misrepresentation of origin in violation of section 43(a) of the

Lanham Act, 15 U.S.C. § 1125(a); and (2) breach of contract based on Asaad's breach of the covenant not to compete contained in the franchise agreements.

On April 25, 2007, ServiceMaster filed a motion for a preliminary injunction preventing Asaad and his directors, officers, agents, servants, employees, and attorneys, from: (1) using any or all of the trademarks associated with ServiceMaster; (2) diverting or attempting to divert any business or customer of the former ServiceMaster business operated by Asaad to any competitor or engaging in any act prejudicial to the goodwill associated with ServiceMaster's trademarks or Business System; (3) owning, maintaining, engaging in, being employed by, or having any interest in any business that performs any of the services licensed by ServiceMaster within a seventy-five-mile radius of the former ServiceMaster business operated by Asaad for a period of one year after Asaad first stops competing unlawfully with ServiceMaster; and (4) failing to comply with the post-termination obligations established in the franchise agreements between ServiceMaster and Asaad. Asaad responded on May 23, 2007, ServiceMaster replied on June 7, 2007, Asaad sur-replied on June 7, 2007, and ServiceMaster responded to the sur-reply on June 14, 2007. A preliminary injunction hearing was held on June 14, 2007.

I. Jurisdiction, Venue, and Applicable Law

At the preliminary injunction hearing, the parties agreed that the court has federal-question jurisdiction over ServiceMaster’s Lanham Act claims under 28 U.S.C. § 1331 and supplemental jurisdiction over ServiceMaster’s contract claims under 28 U.S.C. § 1367. The parties also agreed that venue is proper in this district under section 25.4 of the franchise agreements between the parties and that Tennessee law governs ServiceMaster’s state contract-law claims, as provided by section 25.1 of the franchise agreements.

II. Findings

Based on the evidence at the preliminary injunction hearing, the court finds the following facts. These findings are for purposes of the preliminary injunction motion only. “[F]indings of facts and conclusions of law made by a district court in granting a preliminary injunction are not binding at a trial on the merits.” U.S. v. Edward Rose & Sons, 384 F.3d 258 (6th Cir. 2004).

In November 2004 and January 2005, Asaad entered into two franchise agreements with ServiceMaster. The two agreements granted Asaad the license and right to display ServiceMaster’s trademarks and service marks within a defined territory in the state of Florida and to provide a distinct type of cleaning services to his customers under the ServiceMaster name. Asaad received multiple weeks of training from ServiceMaster about operating a ServiceMaster franchise.

In June 2006, ServiceMaster received a letter from an attorney representing one of its competitors, Stanley Steemer International, Inc. ("Stanley Steemer"). In that letter, Stanley Steemer's counsel informed ServiceMaster that Asaad had registered numerous fictitious corporate names with the State of Florida in an attempt to mislead the consuming public about his affiliation with Stanley Steemer. By letters dated June 12, 2006, and June 21, 2006, ServiceMaster demanded that Asaad immediately cease all efforts to portray his business as a Stanley Steemer business and cease all use of Stanley Steemer's name in conjunction with ServiceMaster's trademarks and service marks. The letters also reminded Asaad that he was contractually prohibited from operating any business that offered services competitive with the services he provided as a ServiceMaster franchisee during the term of the franchise agreements. Finally, ServiceMaster advised Asaad that failure to cure these defaults within twenty-four hours would lead to the termination of his franchise rights.

The fictitious name “Stanli Steemer” was registered to Asaad on September 14, 2003, and the application for registration listed Asaad’s name at his address as the owner of the fictitious name. The fictitious names “SunState Carpet Cleaning” and “SteamMaster Clean” were registered to Mohamad Ali Asaad

(“Mohamad Asaad”) at Asaad’s address on January 25, 2006 and February 14, 2006, respectively.

On June 22, 2006, Asaad filed a notice of cancellation of the fictitious name “Stanli Steemer.”[1] On June 30, 2006, he filed notices of cancellation of the fictitious names “SteamMaster Clean” and “SunState Carpet Cleaning.” Asaad testified that he could not have cancelled the SteamMaster Clean and SunState Carpet Cleaning names earlier because those names were registered to Mohamad Asaad and that it took several days for Asaad to get the necessary authority from Mohamad Asaad to cancel the names.

By letter dated June 23, 2006, ServiceMaster informed Asaad that, because he had not cured his breaches of the franchise agreements within the applicable time, ServiceMaster would terminate the franchise agreements effective June 27, 2006.

Section 14.4 of the franchise agreements provide that, upon termination of the agreement, the franchisee must change its telephone numbers and listings and instruct the telephone company to transfer the telephone numbers and listings to ServiceMaster or to another ServiceMaster franchisee. Before the franchise agreements were terminated, Asaad had placed various advertisements in Florida telephone directories advertising his business as a ServiceMaster business. Asaad has retained the telephone numbers associated with those advertisements since the franchise agreements were terminated. When a customer calls those telephone numbers seeking ServiceMaster services, Asaad informs the customer that his current cleaning business, StainMaster, is not a ServiceMaster business but that it performs the same cleaning services as ServiceMaster. If the customer then seeks to hire StainMaster, Asaad agrees to do cleaning work for the customer.

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[1] It appears that on June 22, 2006, Assad also attempted to cancel the fictitious name “SteamMaster.” The record does not indicate when or to whom that fictitious name was registered.

Section 15.3 of the franchise agreements provides that a former franchisee many not engage in or have an interest in any business that performs the same services licensed by ServiceMaster within a seventy-five mile radius of the territory licensed to the franchisee “for a period of one (1) year after the later of the expiration or termination of this Agreement or the date of the Franchisee’s last use of the Franchisor’s trademarks, tradenames, tradedress or system in any manner, regardless of the cause of termination, except as otherwise approved in writing by the Franchisor[.]” Asaad currently operates StainMaster in the same territory in which he previously operated his ServiceMaster franchise.

III. Preliminary Injunction Standard

In determining whether to issue a preliminary injunction, the court considers: 1) whether the movant has a strong likelihood of success on the merits; 2) whether the movant would suffer irreparable injury without the injunction; 3) whether issuance of a preliminary injunction would cause substantial harm to others; and 4) whether the public interest would be served by the issuance of a preliminary injunction. Ne. Ohio Coal. for Homeless and Serv. Employees Int'l Union v. Blackwell, 467 F.3d 999, 1009 (6th Cir. 2006). These factors are to be balanced; they are not prerequisites to be satisfied. Yolton v. El Paso Tenn. Pipeline Co. 435 F.3d 572, 578 (6th Cir. 2006)

IV. Analysis

A. Strong Likelihood of Success on the Merits

ServiceMaster bases its motion for a preliminary injunction on its claim under section 43(a) of the Lanham Act and on its breach of contract claim based on Asaad's failure to comply with the non-compete provision of the franchise agreements.

Section 43(a) of the Lanham Act "provides a federal cause of action for infringement of marks and trade dress that have not obtained federal registration." Tumblebus Inc. v. Cranmer, 399 F.3d 754, 760-61 (6th Cir. 2005). To establish a violation of section 43(a), ServiceMaster must prove the following elements: (1) that the mark allegedly infringed is protectable; and (2) that there is a likelihood of confusion as a result of the would-be infringer's use of the mark. Id. at 61.

To establish a breach of contract under Tennessee law, ServiceMaster must prove the following elements: (1) the existence of an enforceable contract; (2) nonperformance amounting to a breach of the contract; and (3) damages caused by the breach of contract. Ingram v. Cendant Mobility Fin. Corp., 215 S.W.3d 367, 374 (Tenn. Ct. App. 2006).

ServiceMaster has a strong likelihood of success on the merits of its Lanham Act claim. The parties do not dispute that ServiceMaster's trademarks and service marks are protectable. Asaad is using ServiceMaster's marks by accepting employment from customers who contact his business in response to advertisements promoting Asaad's company as a ServiceMaster franchise. There is a significant likelihood of confusion based on this use of the ServiceMaster trademark.

"Common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks." Burger King Corp. v. Mason, 710 F.2d 1480, 1492 (11th Cir. 1983); see also Church of Scientology Int'l v. Elmira Mission of the Church of Scientology, 794 F.2d 38, 44 ("the use of a mark by a former licensee confuses and defrauds the public"). Although Asaad testified that he informs customers seeking ServiceMaster that his is not a ServiceMaster business, the possibility of confusion is nonetheless significant. A customer seeking to hire ServiceMaster by calling a telephone number advertised as a ServiceMaster number will instead reach a company that does the same work as

ServiceMaster under the strikingly similar name of StainMaster. Because the risk of confusion is substantial, ServiceMaster has a strong likelihood of succeeding on its Lanham Act claim.

ServiceMaster also has a strong likelihood of success on its breach of contract claim based on Asaad's failure to comply with the non-competition provision of the franchise agreements. The parties do not dispute that the franchise agreements are enforceable.

Asaad asserts that his nonperformance did not constitute a breach of the contract because ServiceMaster itself breached the franchise agreements by terminating them improperly. The evidence adduced at the hearing indicates that ServiceMaster had an ample basis to terminate the franchise agreements. The fictitious company names registered to Asaad and to Mohamad Asaad at Asaad's address and telephone number indicated that Asaad was operating competing cleaning services businesses while acting as a ServiceMaster franchisee. Therefore, it does not appear that ServiceMaster's termination of the franchise agreements was improper. Moreover, the non-competition provision prohibits Asaad from competing with ServiceMaster after termination of the contract "regardless of the cause of termination."

Asaad has conducted competing cleaning services businesses in the territory governed by his franchise agreements with ServiceMaster after the termination of the franchise agreements.

He has, therefore, violated the non-competition provision of the franchise agreements.

Asaad asserts that on June 25 or 26, shortly after his ServiceMaster franchise was terminated, a ServiceMaster employee, Charlie Kerr, instructed Asaad that he could continue to use any of the fictitious names that were registered to Asaad or to Mohamad Asaad. Asaad interpreted this statement to mean that ServiceMaster had given him permission to continue operating his competing cleaning business, in violation of the terms of the non-competition covenant in the franchise agreements, under any of the fictitious names registered to his address.

Under section 15.3 of the franchise agreements, the terms of the non-competition covenant can not be changed except in writing by the ServiceMaster. Asaad testified that neither Kerr nor any other representative of ServiceMaster provided a written modification of the non-competition provision. Therefore, Kerr's statement, even if accurately recalled, would not be sufficient to waive that provision. Asaad's failure to comply with the non-competition covenant in the franchise agreements constitutes a breach of the agreements.

Asaad testified that his current cleaning business, StainMaster, receives calls from customers seeking to hire ServiceMaster and that StainMaster sometimes succeeds in capturing those customers' business for itself. Because

ServiceMaster is losing business to StainMaster, Asaad's breach of the non-competition agreement has caused damages to ServiceMaster.

The franchise agreements between Asaad and ServiceMaster were enforceable contracts, and Asaad's failure to comply with the non-competition provisions of the agreements amounted to a breach of contract that caused damages to ServiceMaster. Therefore, ServiceMaster has a strong likelihood of success on the merits of its breach of contract claim based on Asaad's failure to comply with the con-competition covenant.

Asaad argues that, even if ServiceMaster succeeds on its breach of contract claim based on the non-competition covenant, ServiceMaster is entitled to damages only, not to an injunction. He contends that, under the franchise agreement, the non-competition covenant expires by its terms on June 23, 2007, which is one year after the franchise agreements were terminated.[2] Citing Hodges v. Schlinkert Sports Assocs., Inc., 89 F.3d 310, 312 (6th Cir. 1996), Asaad asserts that the court does not have the authority to extend the term of the covenant beyond the date provided in the franchise agreement.

In Hodges, the defendants sought a preliminary injunction to

[2] Asaad asserts that the franchise agreements were terminated on June 23, 2006 and, therefore, the non-competition provision expires on June 23, 2007. ServiceMaster's June 23, 2007 letter to Asaad states that the agreements would be terminated effective June 27, 2006. Because the agreements were terminated on June 27, 2006, if the one-year term of the non-competition covenant began to run on the termination date, the covenant would expire on June 27, 2007.

enforce a non-compete clause in their contract with the plaintiff. The non-compete provision prevented the plaintiff from working for a competitor of the defendants for one year after the plaintiff's employment with the defendants ended. The court denied the defendants' appeal of the district court's denial of their motion for a preliminary injunction, holding that the appeal was moot because more than one year had passed since the plaintiff's employment had ended and, thus, the requested time period for the injunction had passed.[3]

Here, ServiceMaster does not seek an extension of the non-competition covenant beyond the term provided in the franchise agreement. The franchise agreement prevents Asaad from operating any business that competes with ServiceMaster "for a period of one (1) year after the later of the expiration or termination of this Agreement or the date of the Franchisee's last use of the Franchisor's trademarks, tradenames, tradedress or system in any manner, regardless of the cause of termination, except as otherwise approved in writing by the Franchisor[.]" Therefore, the covenant expires on the later of June 27, 2007 or the date one year after Asaad's last use of ServiceMaster's trademarks, tradenames, tradedress, or system. Because Asaad has not ceased

[3] The court noted that defendants' motion for a preliminary injunction requested only enforcement of the terms of the contract and, therefore, no injunction could issue after the relevant contract provision had expired. The court explained, however, that if the defendants prevailed on the merits at trial, they might be entitled to an injunction as part of the "general equitable relief" requested in their complaint.

using ServiceMaster's trademarks, one year from the date that he ceases to do so will necessarily be later than June 27, 2007. Therefore, the covenant does not expire on June 27, 2007, but rather expires one year after Asaad's last use of ServiceMaster's trademarks, tradenames, tradedress, or system.

Because Asaad has not ceased using ServiceMaster's trademarks, the one-year period of the non-competition agreement has not yet begun to run. Were the court to enjoin Asaad from competing with ServiceMaster for one year after the date he last uses ServiceMaster's trademarks, tradenames, tradedress, or system, the injunction would not extend the term of the non-competition provision beyond what is provided in the contract. Rather, it would enforce the provision as written. The parties do not dispute that the court has the power to issue injunctions to enforce the provisions of the franchise agreements.

B. Irreparable Injury

ServiceMaster is likely to suffer irreparable injury if Asaad is not enjoined from using ServiceMaster's trademarks and service marks and from violating the non-competition covenant. Irreparable harm is presumed from a defendant's infringement of a plaintiff's trademark. DaimlerChrysler v. The Net Inc., 388 F.3d 201, 208 (6th Cir. 2004). Under Tennessee law, "[t]he loss of customer goodwill and injuries that are a consequence of unfair competition . . . can constitute irreparable harm." AmeriGas

Propane, Inc. v. Crook, 844 F.Supp. 379, 390 (M.D. Tenn. 1993). ServiceMaster's goodwill is likely to be harmed by its former franchisee's continuing to operate a cleaning business in the same territory covered by the former franchise. This factor weighs in favor of granting the requested injunction.

C. Substantial Harm to Others

A party who is enjoined from continuing to use another's trademark wrongfully "can hardly claim to be harmed, [because] it brought any and all difficulties occasioned by the issuance of an injunction upon itself. Opticians Ass'n of Am. v. Indep. Opticians of Am., 920 F.2d 187, 197 (3d Cir. 1990). Although Asaad might be harmed by having to restrict his business to comply with the non-competition provision, his harm is limited by the time and territory limits of the provision.

D. Public Interest

The public interest would be served by the issuance of an injunction. The public interest is served by preventing the confusion in the marketplace that results from trademark infringement. Abercrombie & Fitch v. Fashion Shops of Ky., Inc., 363 F. Supp. 2d 952, 968 (S.D. Ohio 2005); see also Beer Nuts, Inc. v. King Nut Co., 477 F.2d 326, 328 (6th Cir. 1973) ("Trademark protection guards the public from being deceived into purchasing an infringing unwanted product."). Enforcing the non-competition provision is also in the public interest, because

"Tennessee has a strong public policy in favor of upholding contracts." AmeriGas Propane, Inc. v. Crook, 844 F.Supp. 379, 390 (M.D. Tenn. 1993).

Asaad asserts that the public interest will be harmed if he is prevented from performing cleaning services for customers. However, there is no indication that customers seeking cleaning services will not be able to procure those services from other companies if Asaad's business is limited by the non-competition provision.

E. Balancing the Factors

ServiceMaster has a strong likelihood of success on the merits of its claims, and it is likely to suffer irreparable harm if an injunction is not issued. These factors weigh in favor of issuance of a preliminary injunction. Having weighed the four controlling factors, the court determines that issuance of a preliminary injunction is warranted.

V. Terms of the Injunction

Federal Rule of Civil Procedure 65(d) requires that an injunction be "specific in its terms" and "describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained."

Defendant Khaled M. Asaad is hereby preliminarily ENJOINED from: (1) using, attempting to use, or causing to be used any trademark or service mark associated with ServiceMaster or any other mark or designation that is confusingly similar to ServiceMaster marks or gives rise to a likelihood of confusion, mistake or deception with respect to the ServiceMaster marks; and (2) owning, maintaining, engaging in, being employed by, or having any interest in any business that performs any of the services licensed by ServiceMaster within a seventy-five-mile radius of the former ServiceMaster business operated by Asaad for a period of one year from the date of this order.[4]

VI. Bond

Under Federal Rule of Civil Procedure Rule 65(c), "no restraining order or preliminary injunction shall issue except upon the giving of security by the applicant, in such sum as the court deems proper, for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained." Although the language of Rule 65(c) appears to be mandatory, "the rule in our circuit has long been that the district court possesses discretion over whether to require the posting of security." Moltan Co. v. Eagle-Picher Indus., Inc., 55 F.3d 1171, (6th Cir. 1995).

ServiceMaster shall provide a bond in the amount of $30,000

[4] ServiceMaster's briefs to the court requested additional injunctive relief, such as an injunction preventing Asaad from diverting customers of his former ServiceMaster business to any competitor, performing any act injurious to the goodwill associated with ServiceMaster, or failing to comply with all post-termination obligations set forth in the Franchise Agreements. At the preliminary injunction hearing, ServiceMaster limited its injunction request to the activities enjoined in this order.

as security. Because Asaad’s net revenue from his ServiceMaster business in 2006 was $28,826, a $30,000 bond will adequately protect Asaad’s interests if he is found to have been wrongfully enjoined.

So ordered this 18th day of June 2007.

s/ Samuel H. Mays, Jr.
SAMUEL H. MAYS, JR.
UNITED STATES DISTRICT JUDGE